

**BEFORE THE
ILLINOIS COMMERCE COMMISSION**

**PREPARED DIRECT TESTIMONY
OF
DWIGHT S. WORK**

**ON BEHALF OF
UNITED CITIES GAS COMPANY**

**In the Matter of the Application
of United Cities Gas Company for
Authorization to Increase Certain
Natural Gas Rates in the State of
Illinois.**

Docket No. _____

February, 2000

**UNITED CITIES GAS COMPANY
A DIVISION OF ATMOS ENERGY CORPORATION
DOCKET NO. _____
PREPARED DIRECT TESTIMONY OF
DWIGHT S. WORK**

1 **Q. Will you please state your name and business address?**

2 A. My name is Dwight S. Work. I am Director of Utility Consulting Services for Work &
3 Greer, P.C., a certified public accounting firm located at 206 Capitol Boulevard, Nashville,
4 Tennessee 37219.

5 **Q. Briefly summarize your educational background and experience within the indus-**
6 **try.**

7 A. I have received a Bachelor of Science Degree and a Masters of Arts Degree with a major
8 in mathematics from Austin Peay State University (Tennessee). I am a Certified Public
9 Accountant licensed to practice in the State of Tennessee.

10 From September 1974 through June 1976, I was a financial analyst with the Tennessee
11 Public Service Commission (now the Tennessee Regulatory Authority). From July 1976
12 through June 1980, I was the Assistant Director of the Accounting Division for the Ten-
13 nessee Public Service Commission. Subsequent to June 1980, I have provided consult-
14 ing services to our firm's utility clients on a variety of issues.

15 **Q. Have you filed testimony before this commission or similar commissions?**

16 A. I have not filed testimony before the Illinois Commerce Commission prior to this pro-
17 ceeding. I have filed testimony before the Kentucky Public Service Commission, the Ten-
18 nessee Regulatory Authority, and the Virginia State Corporation Commission. I have also
19 testified in the Chancery Court of Davidson County, Tennessee and the Chancery Court
20 of Dickson County, Tennessee on utility matters.

21 **Q. What is the purpose of your testimony in this proceeding?**

1 A. The purpose of my testimony is to sponsor the accounting information related to this fil-
2 ing.

3 **Q. Have you prepared or supervised the preparation of any exhibits in this proceed-**
4 **ing?**

5 A. Yes. I prepared or supervised the preparation of Sections B, C, and D and Schedule A-3
6 of Section A of the Company's filing.

7 **Q. To the extent that the schedules in Sections A, B, C and D reflect the actual experi-**
8 **ence of the Company, what is the source of the information given?**

9 A. The source of all the basic accounting information contained in these schedules is the
10 books and records of the Corporation.

11 **Q. To the best of your knowledge, is the accounting information contained in these**
12 **schedules true and correct?**

13 A. Yes, it is.

14 **Q. Mr. Work, will you be testifying as to the appropriate return on equity?**

15 A. No, I will not. Dr. Donald A. Murry will testify on behalf of the Company as to the appro-
16 priate return on equity.

17 **Q. Will you please provide an overview of the Sections A, B, C and D?**

18 A. The test period used by the Company is the twelve-month period ended September 30,
19 1999. Schedule A-3 is an overall financial summary of all the schedules in Sections B, C
20 and D.

21 Section B contains the schedules showing the calculation of the Company's Illinois Divi-
22 sion jurisdictional rate base. The rate base is developed using end of period balances.

1 Schedule B-1 indicates that the original cost of the jurisdictional rate base is \$25,335,546.

2 The components of the rate base are:

- 3 1. Utility plant in service - \$38,903,289
- 4 2. Less accumulated depreciation - \$17,863,772
- 5 3. Plus construction work in progress - \$2,163,418
- 6 4. Plus gas stored underground - \$3,400,755
- 7 5. Plus the unamortized balance of the consulting and non-compete agreement with
- 8 the previous owners of Monarch Gas Company - \$143,688
- 9 6. Plus the unamortized balance of the previous and current rate case - \$185,573
- 10 7. Plus the unamortized balance of the management audit of Monarch Gas Com-
- 11 pany - \$14,195
- 12 8. Plus materials and supplies - \$282,520
- 13 9. Plus the allowance for working capital - \$678,385
- 14 10. Less customer advances for construction - \$18,931
- 15 11. Less customer deposits - \$60,765
- 16 12. Less accumulated deferred income taxes - \$2,492,808.

17 Schedule B-2 shows the jurisdictional plant in service of the Illinois operations. The plant
18 in service is composed of:

- 19 1. Intangible plant - \$233,304
- 20 2. Production plant - \$302,069
- 21 3. Storage plant - \$98

1 4. Transmission plant - \$2,294,575

2 5. Distribution plant - \$27,393,391

3 6. General plant - \$8,679,852

4 for a total of \$38,903,289.

5 Schedule B-2.1 indicates there is an adjustment to intangible plant in service of \$90,383
6 to remove the allocated portion of merger costs that are not related to Illinois operations.

7 Schedule B-2.2.1 shows the jurisdictional gross additions, retirements, and transfers of
8 plant related to Illinois operations. The adjustment to Account 392 is the net effect of two
9 transfers. A truck with an original cost of \$22,616 was transferred from the Illinois opera-
10 tions to the Plainview, Texas operations. A truck with an original cost of \$18,414 was
11 transferred from the Union City, Tennessee operations to the Illinois operations.

12 Schedule B-2.2.2 shows the gross additions, retirements, and transfers of plant related to
13 Division 091, United Cities General Office. The amounts in the adjustments column rep-
14 resent a reclassification from Account 395 to Account 394.

15 Schedule B-2.2.3 shows the allocation of the plant balances at September 30, 1999 from
16 Division 091 to Division 092, Illinois Operations. The development of the allocation factor
17 is shown on Schedule B-6.1.

18 Schedule B-2.2.4 shows the gross additions, retirements, and transfers of plant related to
19 Division 088, UCG Central Region Administrative Office.

20 Schedule B-2.2.5 shows the allocation of the plant balances at September 30, 1999 from
21 Division 088 to Division 092, Illinois Operations. The development of the allocation factor
22 is shown on Schedule B-6.1.

1 Schedule B-2.2.6 shows the gross additions, retirements, and transfers of plant related to
2 Division 002, Shared Services. The adjustments to plant are ordinary, routine, and im-
3 material.

4 Schedule B-2.2.7 shows the allocation of the plant balances at September 30, 1999 from
5 Division 002 to Division 092, Illinois Operations. The development of the allocation factor
6 is shown on Schedule B-6.1.

7 Schedule B-2.3 indicates that no property has been merged or acquired from other utili-
8 ties within the last three years.

9 Schedule B-2.4 states that no leased property is included in rate base.

10 Schedule B-2.5 states that no property held for future use is included in rate base.

11 Schedule B-2.6 states that no property is excluded from rate base other than the
12 amounts noted on Schedule B-2.1 and Schedule B-3.1.

13 Schedule B-3 shows the balance in accumulated depreciation and amortization and re-
14 tirement work in progress at September 30, 1999 for each division. Accumulated depre-
15 ciation is not maintained by functional plant account. The schedule also shows the allo-
16 cation percentages and allocated amount of accumulated depreciation to Division 092, Il-
17 linois Operations. The development of the allocation factors is shown on Schedule B-6.1.

18 Schedule B-3.1 indicates there is an adjustment to accumulated depreciation of \$90,383
19 to remove the allocated portion of merger costs that are not related to Illinois operations.

20 Schedule B-3.2 sets forth the depreciation accrual rates by account. We were not able to
21 locate the last depreciation study to provide the curve form.

22 Schedule B-4 contains a list of all construction projects with a cost equal to or greater
23 than five percent of the total construction work in progress balance at September 30,
24 1999.

1 Schedule B-4.2 contains the balances of construction work in progress for each division
2 at September 30, 1999 along with the allocated balances to Division 092, Illinois Opera-
3 tions. The development of the allocation factors is shown on Schedule B-6.1.

4 Schedule B-5 shows the computation of the working capital requirement. Working capital
5 is calculated by multiplying the operations and maintenance expenses for the test period
6 by 12.5 percent.

7 Schedule B-5.1.1 shows the monthly balances and selected computations for materials
8 and supplies, gas stored underground, fuel stock, and accrued property taxes for the
9 thirteen months ended September 30, 1999.

10 Schedule B-5.1.2 shows the calculations of selected amounts included in rate base.

11 Schedule B-6 shows the allocation factors related to each rate base component and
12 gives a description of the method of allocation.

13 Schedule B-6.1 provides the statistics used to calculate the allocation factors.

14 Schedule B-6.2 states that the allocation procedures are consistent with the prior Com-
15 mission order for the company.

16 Schedule B-7 presents the balance sheet of Atmos Energy Corporation at September 30,
17 1999 and the previous five years.

18 Section C contains the schedules showing the calculation of the jurisdictional net operat-
19 ing income under present rates for the Illinois Operations.

20 Schedule C-1 indicates that the net operating income under current rates is \$510,507.
21 The accounting adjustments increase the net operating income to \$683,903 for a rate of
22 return of 2.70 percent. A rate increase of \$3,151,322 is required to increase the rate of
23 return to 10.14 percent.

1 Schedule C-2 shows the operating income statement for the total company, Illinois op-
2 erations before allocation, and Illinois operations after allocation.

3 The adjustments shown in column 3 and column 5 of Schedule C-1 are itemized on
4 Schedule C-3. The accounting adjustments on Schedule C-3 refer to the adjustments in
5 column 3 of Schedule C-1. The adjustments to reflect proposed rates refer to the adjust-
6 ments in column 5 of Schedule C-1.

7 The adjustment to revenues consists of two components. The first component increases
8 base and PGA revenues to estimate revenues during a normal weather year. The second
9 adjustment increases PGA revenues to mirror the cost of gas in effect at September 30,
10 1999.

11 The adjustment to production expense is made of three components. The first adjustment
12 increases the cost of gas to reflect a normal weather year. The second adjustment in-
13 creases the cost of gas to reflect end of period rates. The third adjustment is the as-
14 signed share of an increase in payroll expense.

15 Payroll expense is increased by \$326,348. This adjustment reflects the end of period
16 payroll expense and the addition of four employees at the Division 091, United Cities
17 General Office, level. The payroll adjustment is assigned to functional accounts based on
18 the distribution for the test period.

19 The adjustment to storage expense is the assigned share of an increase in payroll ex-
20 pense.

21 The adjustment to transmission expense is the assigned share of an increase in payroll
22 expense.

23 The adjustment to distribution expense is the assigned share of an increase in payroll
24 expense.

1 The adjustment to customer accounts expense consists of two components. The first
2 adjustment is the assigned share of an increase in payroll expense. The second adjust-
3 ment reflects the estimated increase in bad debts expense due to the increase in reve-
4 nues.

5 The adjustment to customer service expense is the assigned share of an increase in pay-
6 roll expense.

7 The adjustment to sales promotion expense is the assigned share of an increase in pay-
8 roll expense.

9 The adjustment to administrative and general expense is composed of five adjustments:

- 10 1. the amortization over three years of the estimated cost associated with this pro-
11 ceeding;
- 12 2. the amortization over three years of the remaining balance from the prior rate
13 case;
- 14 3. the increase in benefits associated with the payroll adjustment;
- 15 4. an adjustment to pension expense to bring the annual amount to zero; and,
- 16 5. an adjustment to remove ten months of merger costs from the test period.

17 The adjustment to interest on customer deposits uses the current rate and the end of pe-
18 riod balance in customer deposits.

19 The adjustment to depreciation and amortization reflects the calculated balance on end of
20 period plant balances.

21 The adjustment to taxes other than income taxes consists of three components:

- 22 1. an adjustment to remove the energy assistance tax from test period tax amounts;

1 2. an adjustment to reverse the accrual of a negative ad valorem tax during the test
2 period; and,

3 3. an adjustment to set the ad valorem tax equal to the amount paid during the test
4 period.

5 The adjustment to income taxes reflects two adjustments:

6 1. the impact on income taxes of the previous adjustments; and,

7 2. the adjustment for interest synchronization.

8 The adjustments are set out in more detail on Schedules C-3.1 through C-3.17.

9 Schedule C-4 indicates that this schedule is not applicable.

10 Schedule C-5 states that depreciation and taxes other than income taxes are allocated to
11 Division 092, UCG Illinois Operations, based on the relationship of Division 092 plant in
12 service to the plant in service of the other division. All other expenses are allocated to Di-
13 vision 092 based on the relationship of Division 092 bills to the bills of the other division.
14 The factors are shown on Schedule B-6.1. The allocation procedures are consistent with
15 the prior order of the Illinois Commerce Commission.

16 Schedule C-6 shows the computation of income taxes before accounting adjustments for
17 the test period. Schedule C-6.01 shows the reconciliation of book to taxable income for
18 the consolidated operations of Atmos Energy Corporation for the test period. Schedule C-
19 6.1 indicates that there are no unamortized investment tax or job development credits.

20 Schedule C-7 shows the social and service club membership dues for the test period.

21 Schedule C-8 shows the charitable contributions for the test period.

22 Schedule C-9 shows the demonstration and selling, advertising, and miscellaneous sales
23 expense for the test period.

1 Schedule C-10 shows the civil, political, and related activities for the test period.

2 Schedule C-11 shows the additions to and amortization of rate case expense during the
3 test period.

4 Schedule C-12 shows the payroll cost for the test period. Schedule C-12.1 shows the ex-
5 ecutive compensation for the test period.

6 Schedule C-13 states that there were no affiliated interest transactions during the test pe-
7 riod.

8 Schedule C-14 shows the development of the revenue conversion factor.

9 Schedule C-15 presents the income statement of Atmos Energy Corporation for the test
10 period and for the five most recent fiscal years.

11 Section D contains the schedules related to the capital structure and the cost of the com-
12 ponents of the capital structure.

13 Schedule D-1 shows the cost of capital summary.

14 Schedule D-2 shows the cost of short-term debt at September 30, 1999.

15 Schedule D-3 shows the cost of long-term debt at September 30, 1999.

16 Schedule D-4 states that there is no preferred stock.

17 Schedule D-5 shows various financial data for the test period and prior years.

18 Schedule D-6 presents the consolidated statement of cash flows for the twelve months
19 ended September 30, 1999 for Atmos Energy Corporation.

20 **Q. Does this conclude your testimony?**

21 **A.** Yes, it does.

STATE OF TENNESSEE)
)
COUNTY OF WILLIAMSON) §

Dwight S. Work, being first duly sworn, deposes and states that he is Dwight S. Work referred to in the document entitled "Prepared Direct Testimony of Dwight S. Work" in Docket No. _____ before the Illinois Commerce Commission, and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.



Dwight S. Work

Subscribed and sworn to
before me this 8th day
of February 2000.



Notary Public

My commission expires:

October 25, 2003